LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6108 **NOTE PREPARED:** Jan 29, 2013
BILL NUMBER: HB 1590 **BILL AMENDED:**

SUBJECT: PERF and TRF Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Niezgodski **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill provides for a 1% cost-of-living adjustment (COLA) for Teachers' Retirement Fund (TRF) and Public Employees' Retirement Fund (PERF) members, survivors, and beneficiaries who retired or were disabled on or before January 1, 2012.

Effective Date: July 1, 2013.

Explanation of State Expenditures: Under this bill, the state will bear the costs of the increase for the state-funded PERF portion (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the State Excise Police, Gaming Agent, Gaming Control Officers, and Conservation Enforcement Officers' Retirement Fund (C&E Fund), and the Legislators' Defined Benefit Plan (Legislator DB Plan). The locally funded PERF portion and the TRF 1996 Fund will impact local units.

(Revised) *PERF (State):* PERF is prefunded by employer contributions that are actuarially calculated to equal the benefit accrual cost for the year (normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. With PERF, 1% COLAs are assumed in the actuarial valuation of the fund and are already recognized in annual employer contribution requirements (9.7% as of July 1, 2012). That being said, while a 1% COLA will not increase the employer contribution rate, the unfunded actuarial liability is estimated to be $20.4 M higher than what it would be if no COLA is granted (Table 1).

TRF Pre-1996 Fund: Since the Pre-1996 Fund is funded on a pay-as-you-go basis, the annual cost is the increase in the amount of benefits paid each year. The initial increase in benefits paid is expected to be $7.9 M in FY 2014, with the amount gradually decreasing in future years due to mortality (Table 2). The ultimate cost of this proposal for current Pre-1996 Fund members is the increase in the present value of their benefits of approximately $81.6 M (Table 1). The funds affected for the Pre-1996 Fund are the state General Fund and the Pension Stabilization

Fund.

(Revised) *C&E Fund and Legislator DB Plan:* The C&E Fund and the Legislator DB Plan are statutorily linked to any benefit increases provided to PERF recipients. The 1% COLA provision for PERF would therefore also provide a 1% COLA increase effective January 1, 2014, to members of the C&E Fund and Legislator DB Plan. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF and TRF impact.

The C&E Fund is an actuarially prefunded plan paid by employer contributions. The proposal would not increase employer contributions (20.75% as of January 1, 2013), as annual 1% COLAs are assumed in the actuarial valuation of the C&E Fund and are already recognized in annual employer contribution requirements. However, the unfunded actuarial liability is estimated to be $442,000 higher than what it would be if no COLA is granted.

The Legislator DB Plan is an actuarially prefunded plan that is funded by General Fund appropriations. The 1% COLA increase would require additional annual appropriations of approximately $3,500 beginning in FY 2014, with the amount decreasing gradually in future years due to mortality.

Table 1. State Increase in Present Value of Future Benefits from COLA

	Amount Recognized in Valuation (1% on 1/1/2013)	**COLA Provided in Bill (1% on 1/1/2014)**	**Net Increase/Decrease over 1% Assumption**
TRF Pre-1996 Fund	$81,600,000	$81,600,000	--
PERF (State)	$20,358,000	$20,358,000	--
C&E Plan	$442,000	$442,000	--
Total	**$102,400,000**	**$102,400,000**	--

* The Legislator DB Plan would also experience an increase in the present value of future benefits from the COLA. However, the Legislator DB Plan is very small relative to the sizes of the other pension plans and is not listed above.

Table 2. Estimated State Increase in Projected Benefit Payments from 1% COLA Increase

	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
TRF Pre-1996 Fund	$0	$7,925,000	$7,925,000	$7,925,000
PERF (State)	$0	$1,612,000	$1,612,000	$1,612,000
C & E Fund	$0	$44,500	$44,500	$44,500
Legislator DB Plan	$0	$3,500	$3,500	$3,500
TOTAL	**$0**	**$9,585,000**	**$9,585,000**	**$9,585,000**

The estimated number of fund members, survivors, and beneficiaries who would receive increased benefit payments from the COLA is provided in Table 3.

Table 3. Estimated Beneficiaries Impacted and Average Benefit Increase from 1% COLA		
	Retirees/Beneficiaries Impacted	**Average Annual Benefit Increase**
TRF Pre-1996 Fund	47,000	$169
TRF 1996 Fund	2,971	$167
PERF (State)	24,331	$66
PERF (Local)	48,661	$66
C&E Fund	187	$238
Legislator DB Plan	63	$55

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *PERF (Local)*: PERF is prefunded by employer contributions that are actuarially calculated to equal the benefit accrual cost for the year plus a 30-year amortization of the unfunded accrued benefit liability. With PERF, 1% COLAs are assumed in the actuarial valuation of the fund and are already recognized in annual employer contribution requirements (9.73% on average for local political subdivisions that participate in PERF). That being said, while a 1% COLA will not increase the employer contribution rate, the unfunded actuarial liability is estimated to be $35.2 M higher than what would occur if no COLA were granted (Table 4).

(Revised) *TRF 1996 Fund*: The 1996 Fund is prefunded by employer contributions (local school corporations). For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.50%. Annual COLAs of 1% per year are assumed in the actuarial valuation of the TRF 1996 Fund and are already recognized in annual employer contribution requirements. That being said, while a 1% COLA will not increase the employer contribution rate, the unfunded actuarial liability is estimated to be $5.7 M higher than what it would be if no COLA were granted (Table 4).

Table 4. Local Increase in Present Value of Future Benefits from COLA			
	Amount Recognized in Valuation (1% on 1/1/2013)	**COLA Provided in Bill (1% on 1/1/2014)**	**Net Increase/Decrease over 1% Assumption**
TRF 1996 Fund	$5,700,000	$5,700,000	--
PERF (Local)	$35,151,000	$35,151,000	--
Total	**$40,851,000**	**$40,851,000**	**--**

Table 5. Estimated Local Increase in Projected Benefit Payments from 1% COLA Increase				
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
TRF 1996 Fund	$0	$496,000	$496,000	$496,000
PERF (Local)	0	3,224,000	3,224,000	3,224,000
TOTAL	**$0**	**$3,720,000**	**$3,720,000**	**$3,720,000**

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Those units with members in PERF and school corporations with members in TRF.

Information Sources: Greg Witter, Indiana Public Retirement System, gwitter@inprs.in.gov; Allison Karns, Indiana Public Retirement System, akarns@inprs.in.gov.

Fiscal Analyst: Stephanie Wells, 232-9866.

Definitions: *Cost-of-Living Adjustment:* An across-the-board increase (or decrease) in wages or pension benefits according to the rise or fall in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value: The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability: The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.